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Quadra Mining Ltd.

QUA-TSX

2Q09 Results In-Line; Expanding Future Production Base

Event

Quadra reported in-line adjusted 2Q09 EPS of US\$0.10 versus our estimate of US\$0.10 and consensus of US\$0.11 before market open on Aug-13-09. The recently (Jul-13-09) revised 2009 production guidance was reaffirmed at 165 mln lbs.

Action

We recommend buying Quadra's shares. In addition to the steady-state production base from the Robinson Cu-Au mine, Quadra is ramping up the Carlota and Franke SX/EW projects in the second half of 2009. We therefore anticipate copper production to increase by 43% to 126,040 tonnes in '10E from 88,384 tonnes in '09E. We expect '10E EPS of US\$3.19 versus US\$1.05 in '09E.

Analysis

- **2Q09 financial performance impacted by hedge noise** – QUA reported an accounting hedge loss of US\$17.2 mln (US\$0.18/shr), which resulted in a posted loss of US\$0.08/shr. After adjustments the final result was in-line.
- **Estimates adjusted**– We have lowered our NAV estimate to C\$26.26 (prev. C\$26.67) which captures the higher than forecast '09E capex spend of US\$206 mln (prev US\$195 mln). Our '09E EPS falls, after including 2Q09 hedge loss, to US\$1.05 (prev. US\$1.14).
- **Sierra Gorda** – Following release of the scoping study in July (refer to INsight "Scoping Study Reveals Significance of Sierra Gorda", Jul-24-09, share price C\$9.80) we expect the company will consider its options to potentially bring in a partner to share the risk and cost of advancement of the project.
- **Franke delayed slightly but making progress** – Although QUA intends to ship first cathodes from the Franke project in September it is only able to operate at 60% of design until the new crusher feeder system is modified.
- **Robinson & Carlota** – Nothing new to report on Robinson and Carlota production following update provided by Quadra on Jul-13-09.

Valuation

Quadra's shares trade at a P/NAV of 0.48x vs. the peer group of copper producers at 0.74x. Our target price is based on a 0.70x P/NAV multiple (in-line with liquidity and risk-adjusted producer target multiples).

RATING & TARGET

RATING	STRONG BUY 1 =
Target Price (6-12 mths) (C\$)	19.00 =
Closing Price (C\$)	12.51
Total Return to Target	52%

MARKET DATA

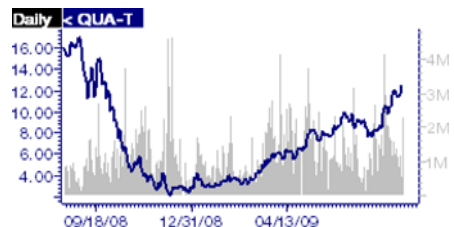
Market Capitalization (US\$mIn)	1,137
Current Net Debt (US\$mIn) (3Q09E)	(49)
Enterprise Value (US\$mIn) (2009E)	1,089
Basic Shares Outstanding (mln)	99.2
Avg Daily Dollar Volume (3mo, mln)	n/a
52 Week Range (C\$)	\$1.97 - \$17.09

KEY FINANCIAL METRICS

FY-Dec 31	2008A	2009E	2010E
EPS (US\$)	0.61	1.05	3.19
P/E (x)	25.5	13.3	4.4
EPS - 1Q (US\$)	1.44	0.40	0.77
EPS - 2Q (US\$)	1.10	(0.08)	0.77
EPS - 3Q (US\$)	0.31	0.37	0.82
EPS - 4Q (US\$)	(1.94)	0.48	0.83
NAVPS (C\$)		26.26	
P/NAV(x)		0.48	
Revenue (US\$mIn)	488	525	848
EBITDA (US\$mIn)	183	213	502

COMPANY DESCRIPTION

Quadra Mining Ltd. (QUA-TSX) is a multi-asset copper and base metal producing company. It owns and operates the Robinson Mine in Nevada, where it produces copper and gold and is in the process of constructing the Carlota copper project in Arizona. Quadra is also advancing the Sierra Gorda copper project in northern Chile and the Malmberg molybdenum project in Greenland.



Sources: Raymond James Ltd., Thomson ONE

Additional Details

- **2Q09 production.** Cash costs of production at Robinson averaged US\$1.59/lb in 2Q09 versus our estimate of US\$1.80/lb. Refer to our Quadra INsight “2Q09 Production Report Disappoints; Guidance Lowered”, Jul-14-09, share price C\$7.57, for additional details. As indicated in July, 2Q09 production at both Carlota and Robinson was below expectations. The Robinson Mine produced 22.9 million pounds of copper and 18,031 ounces of gold and Carlota produced 6.8 million pounds of copper cathode.
- **Hedging.** Quadra intends to continue with its purchase of plain vanilla out-of-the-money copper put options, which will continue to cost less as the copper price trends higher. Quadra spent US\$3.4 million in 2Q09 to acquire 89.5 million pounds of copper put options at a strike price of US\$1.50/lb for expiry dates between May and December 2009. Under the terms of the Franke loan facility, Quadra was required to enter into a copper price protection program in order to establish a minimum floor price for a portion of the anticipated copper sales from the Franke mine. In May 2009 Quadra entered into a zero cost copper collar for 27.6 million pounds of copper (floor of US\$1.79/lb and cap of US\$2.16/lb) and also purchased put options for 15 million pounds at a cost of US\$4.9 million (strike of 1.79/lb). Given that fair value of the collar at quarter-end (Cu US\$2.32/lb) was negative US\$8.6 million, the copper price is likely to trend higher and Quadra will therefore need to continue to keep an eye on their exposure on this under-the-water hedge. We would prefer to see Quadra opportunistically close out its exposure on this the front. Note however, that the hedge price of \$2.16/lb for the collar impacts less than ~10% of the Company's expected production through the end of 2010.
- **Franke delayed slightly.** Although Quadra intends to ship first cathodes from the Franke project in September it is only able to operate at 60% of design until the new crusher feeder system is modified at year-end. According to the company, the ramp up schedule for the Franke mine has been impacted by residual design and construction issues, the most significant of which was the solution pond liner construction quality and the type and installation of primary crusher feeder. Quadra indicated in the press release that the pond issues were substantially resolved during 2Q09. The feeder will be replaced by the end of the year at which point management believes that the crusher will be able to operate at design capacity. In the meantime, the present system is not capable of running at capacity and a temporary portable crusher will be used to mitigate the impact. Quadra expects to produce 10 to 15 million pounds of copper cathode in the remainder of 2009.

- **Sierra Gorda.** Following release of the scoping study in July (refer to INsight “Scoping Study Reveals Significance of Sierra Gorda”, Jul-24-09, share price C\$9.80) the company will look at its options to bring in a partner to share risk and the cost of advancement. In the meantime the company will advance with metallurgical work, further infill drilling and water studies. Quadra estimates it will cost between US\$40 and US\$50 million to complete the feasibility study work. It is estimated it may take approximately one year to complete the pre-feasibility study.
- **Malmbjerg moly project.** Quadra is looking at its strategic alternatives for the Malmbjerg moly project located in Greenland. Management indicated it would consider a range of options including finding a partner help build it, to a possible outright sale of the project. At present, we do not ascribe value to the project.
- **Hudbay shares.** Quadra indicated on the conference call that it has approximately 3 million Hudbay Minerals Inc. (HBM-TSX) shares left to sell.

Changes to our Estimates

We have lowered our NAV estimate to C\$26.26 (prev. C\$26.67) which captures the higher than forecast '09E capex spend of US\$206 mln (prev US\$195 mln). Our '09E EPS falls, after including 2Q09 hedge loss, to US\$1.05 (prev. US\$1.14). The changes to our forecasts are summarized in Exhibit 1.

Exhibit 1: Changes to our Estimates

New Estimates	2008A	2009E	2010E	2011E
Attributable Cu Production (tonnes)	73,490	84,384	126,040	139,494
Attributable Au Production (ounces)	137,629	99,833	110,288	66,814
Copper Cash Cost (C1) (US\$/lb)	1.15	1.32	1.19	1.28
Total Production Cost (US/lb)	1.36	1.58	1.43	1.49
EPS Basic (US\$)	0.61	1.05	3.19	3.86
CEPS (US\$)	2.64	1.94	3.89	4.53
Previous Estimates	2008A	2009E	2010E	2011E
Attributable Cu Production (tonnes)	73,490	84,384	126,040	139,494
Attributable Au Production (ounces)	137,629	99,833	110,288	66,814
Copper Cash Cost (C1) (US\$/lb)	1.15	1.36	1.19	1.28
Total Production Cost (US/lb)	1.36	1.63	1.43	1.49
EPS Basic (US\$)	0.61	1.14	3.16	3.86
CEPS (US\$)	2.64	1.82	3.86	4.54
% Change	2008A	2009E	2010E	2011E
Attributable Cu Production (tonnes)	0%	0%	0%	0%
Attributable Au Production (ounces)	0%	0%	0%	0%
Copper Cash Cost (C1) (US\$/lb)	0%	-3%	0%	0%
Total Production Cost (US/lb)	0%	-4%	0%	0%
EPS Basic (US\$)	0%	-9%	1%	0%
CEPS (US\$)	0%	7%	1%	0%
Copper Price Forecast (US\$/lb)	3.16	2.24	3.10	3.23
Gold Price Forecast (US\$/oz)	873	999	1,050	950

Source: Raymond James Ltd.

Risks

Some of the risk factors that pertain to the projected 6-12 month stock price target for mining companies in our universe are as follows: Mining companies are subject to a range of risks, including, but not limited to: environmental risk, political risk, operational risk, financial risk, hedging risk, commodity price fluctuation risk, and currency risk. Any difference between our metal price forecasts and realized metal prices will likely have an impact on our earnings and valuation estimates for the mining companies in our research coverage universe. The operation of mines, and mills is complex and is exposed to a number of risks, most of which are beyond the company's control. These include: environmental compliance issues; personal accidents; metallurgical/other processing problems; unexpected rock formations; ground or slope failures; flooding or fires; earthquakes; rock bursts; equipment failures; consultant errors and, interruption due to inclement, weather conditions, road closures, and/or local protests. Other risks include, but are not limited to: uncertainties surrounding reclamation costs; aging equipment and facilities which could lead to increased costs; strikes; and, transportation disruptions.

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COMPANY	SYMBOL	EXCHANGE	DISCLOSURES
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